

2015-2020 General Fund 6-year Forecast Detail

Council Budget Workshop, March 24, 2014

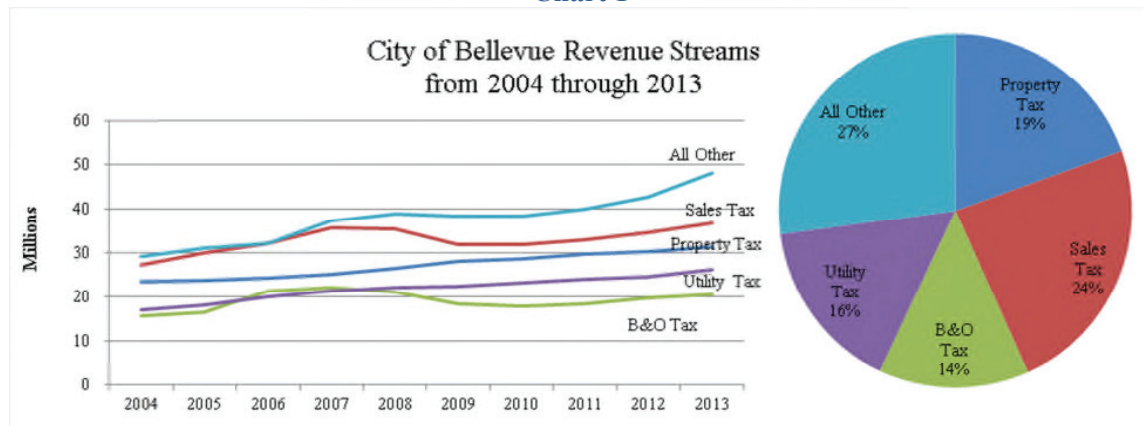
Executive Summary:

- *The 2015-2020 forecast shows recovery, with growth back to the 15% fund balance level by 2019 at current -program/staffing levels.*
- *2013 revenues continue to meet overall budget.*
- *No property or other tax increase is assumed in the forecast.*
- *Sales and B&O tax growth is expected to continue, with a return to pre-recessionary levels in real dollars by 2015.*

General Fund Revenue Discussion

During the recession, General Fund revenue declined 9% peak-to-trough, excluding interfund transfers. The greatest impact to the City's revenue during the recession was to Sales Tax and, to a slightly lesser degree, Business & Occupation tax (B&O Tax). These taxes are largely dependent on economic conditions and thus very volatile, particularly during times of economic uncertainty. Sales Tax and B&O tax are highly correlated; however, B&O tax is slightly less volatile than Sales Tax. Chart 1 illustrates the volatility and proportion of General Fund revenue reflected by these two revenue sources. Together Sales Tax and B&O Tax make up 38% on average since 2004 of the City's General Fund revenue. Currently Sales and B&O Tax comprise 35% of General Fund revenue

Chart 1





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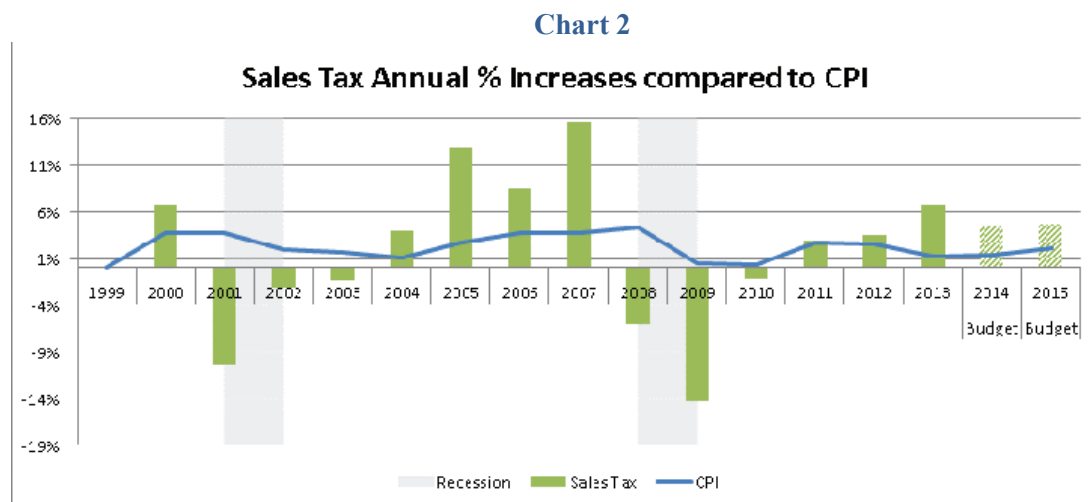
General Property Tax

General Property Tax is levied as a dollar amount on the value of real and personal property. The tax rate is calculated by dividing the levy amount by the assessed value. This method for determining the property tax means the rate may fluctuate dependent on assessed value.

In 2014, only 11% of a property owner's tax bill will be received by the City of Bellevue, and the remaining 89% is remitted to King County, the State, schools, and other taxing jurisdictions. The City is allowed to increase the levy annually by the lesser of 1% or the implicit price deflator (IPD), or may bank the allowable increase if not taken (known as "banked capacity") for later use. The Council has not raised property tax in the last ten years for operations, but has approved the use of banked capacity to offset a Sales Tax transfer to the General CIP to support capital projects on three occasions (2% each year in 2007 and 2008 and 3% in 2009). Property Tax is fairly consistent and does not fluctuate significantly unless the levy is adjusted by the City Council. The forecast below assumes no increase in property taxes for the forecast period, except for the addition of new construction valuation.

Retail Sales/Use Tax

The City collects an 0.85% tax on retail goods and services. Sales Tax revenue is the most volatile revenue the City collects. During the recession, Sales Tax collections fell 21% from their peak in 2007 to the trough of the recession in 2010. Chart 2 shows the Sales Tax growth since 1996, and is shown compared to the Consumer Price index to demonstrate the magnitude of growth and volatility.





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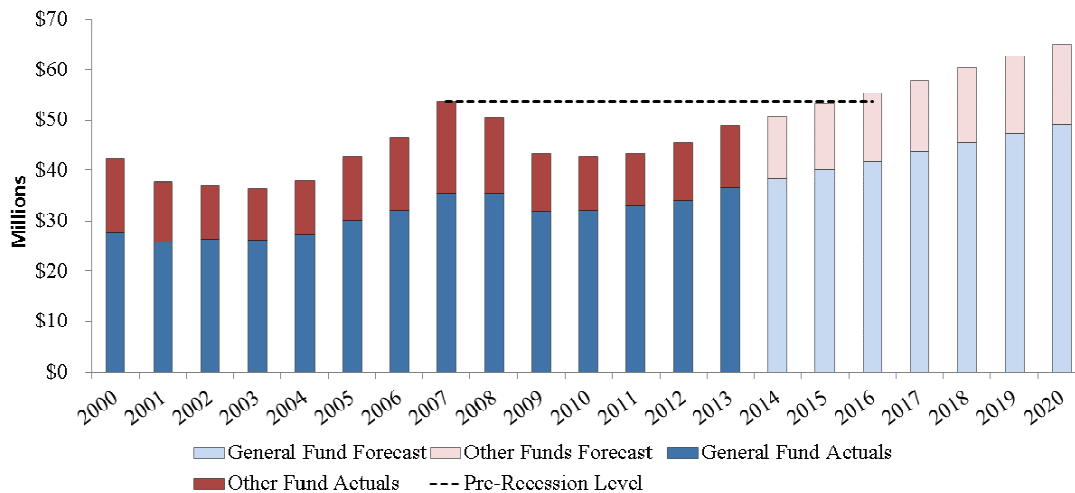
Sales Tax is reported to the City by sectors. The major sectors for Bellevue are retail sales, construction, and auto sales, which together comprise 60% of sales tax revenue; all other retail sales tax sectors make up the balance.

- Construction was a driving force in the City's revenue growth leading up to the recession of 2007. Before the recession, construction accounted for 22% of Sales Tax revenue, but only 14% in 2013. Having such a large portion of the City's revenue subject to this volatility presents challenges due to the economic sensitivity of the construction industry.
- Retail sales is a broad category that is comprised of both durable and non-durable goods. Bellevue is a regional hub for retail stores spanning the downtown core and other areas of the City, as well as many big box retailers. Auto sales are a sub-set of retail sales, but due to the relative size of auto purchases, are tracked and forecasted separately.

Chart 3 shows historical Sales Tax collections and the forecast for Sales Tax out to 2020. As depicted in the table, the City is forecasting that a return to pre-recessionary levels by 2015 in real dollars. King County, and the neighboring cities of Kirkland and Redmond, are forecasting similar trends.

Chart 3

Early Look Sales Tax Actuals and Forecast



Business & Occupation Tax

Business and Occupation (B&O) Tax is made up of two parts, gross receipts and square footage taxes. This revenue, like Sales Tax, is subject to volatility brought on by economic risk. During the recession, B&O Tax collections fell 20% from the peak. Over the last 10 years, B&O Tax



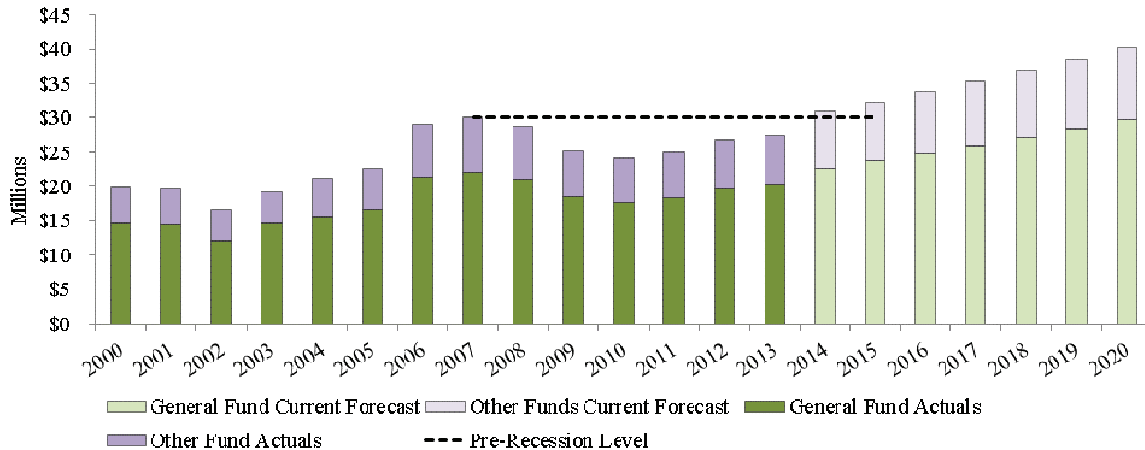
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accounted for 14% of the City's General Fund revenue. B&O is projected to return to pre-recessionary levels by 2014 as reflected in Chart 4

Chart 4

Early Look B&O Tax Actuals and Forecast



Utility Tax

Utility Tax is collected from eight types of utility services: electric, natural gas, garbage, telephone, cellular phone, water, sewer and storm water. Aside from telephone and cellular phone taxes, Utility Taxes are fairly constant, rarely declining from year to year. A couple areas of note:

- In the last few years Electric and Natural Gas Utility tax collections have flattened out due to conservation efforts and mild weather over the last few years.
- Telephone and cellular phones are expected to flatten due to households abandoning landlines and wireless phone companies shifting the proportion of the bill more towards the untaxed data and away from voice service.

Other Revenue

Other revenue consists of dozens of revenues collected from various sources, including Excise Taxes, Sales Tax Annexation Credit, Penalty/Interest Delinquent Tax, Licenses and Permits, Intergovernmental – State and Other Cities, Charges for Goods and Services, Fines/Forfeits, and Other Miscellaneous Taxes and Revenues.

Intergovernmental revenues consist of revenue collected from other entities for services provided by Bellevue (e.g. Fire EMS services, etc.). State funding, sometimes referred to as State-Shared Funds, consists of distributions from State taxes such as liquor excise tax and



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Liquor Board profits. In the 2011 State Legislative session, State-shared revenue was reduced to help fill the budget gap at the State level. Liquor excise tax distributions to cities were eliminated entirely for the biennium. This elimination of liquor excise tax was scheduled be reinstated after the end of the budget cycle; however, during the 2013 Legislative Session, the revenue was reinstated at only half of what it was before. The forecast reflects these changes.

General Fund Forecast

As of the year end 2013, total revenues are in line with total expenditures for the General Fund. The Mid-Biennium 2014 Budget shows a slight increase in fund balance, and the forecast for 2015 to 2020 shows revenues exceeding expenditures and growing fund balance to 15% by 2019 in line with the City's financial policies. The forecast is a status quo forecast and assumes that one-time or short-term expenditures do not reoccur in the future.

Rebuilding fund balance is important as it illustrates the City's ability to protect essential service programs during economic downturns and natural catastrophies or other unforeseen major events. Maintaining fund balance directly contributes to the City's AAA bond rating, which will keep the City's cost of borrowing as low as possible and provide a tangible public indicator of the City's strong financial condition. Since fund balance is calculated as a percentage of revenue, in order to grow the fund balance percentage back to 15%, the actual fund balance must increase. As displayed in Table 1 below, the City's fund balance level is at 14%. The City would have needed to add \$2 million to fund balance to bring it to the target level of 15% in 2013. To simply maintain fund balance target percentage, the City must add \$800,000 annually in subsequent years.

As with all forecasts, this is a best estimate of the future. It represents the collection of all fiscal information known as of March 2014. The forecast is updated three times per year, in March (early look for the next year), in July (post final CPI-W announcement), and in September/October (as either the Adopted Budget or Mid-Biennium Update is before Council).



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Table 1
General Fund Forecast

	YE Est.	Budget	Forecast					
	2013	2014	2015	2016	2017	2018	2019	2020
Beginning Fund Balance	\$23,407	\$23,831	\$24,083	\$24,392	\$25,367	\$27,976	\$30,815	\$34,725
Revenue								
Property Tax	\$31,282	\$31,901	\$32,194	\$32,503	\$32,817	\$33,139	\$33,469	\$33,805
Sales Tax	36,789	38,239	40,263	42,246	44,206	46,110	47,843	49,564
Business and Occupation	20,477	21,390	22,955	24,120	25,310	26,516	27,682	28,866
Utility Tax	26,148	26,596	27,822	29,024	30,237	31,505	32,716	33,971
Miscellaneous Revenue	48,115	50,810	51,586	53,074	53,191	54,683	56,216	57,801
Total Revenue	\$162,811	\$168,936	\$174,820	\$180,967	\$185,761	\$191,953	\$197,926	\$204,007
% Δ Total Revenue		3.8%	3.5%	3.5%	2.6%	3.3%	3.1%	3.1%
Expenditures								
Personnel	\$100,890	\$106,041	\$109,851	\$113,228	\$115,047	\$118,640	\$120,955	\$125,283
Maintenance & Operation	61,497	62,643	64,660	66,764	68,105	70,474	73,061	74,172
Total Expenses	\$162,387	\$168,684	\$174,511	\$179,992	\$183,152	\$189,114	\$194,016	\$199,455
% Δ Total Expenses		3.9%	3.5%	3.1%	1.8%	3.3%	2.6%	2.8%
Ending Fund Balance	\$23,831	\$24,083	\$24,392	\$25,367	\$27,976	\$30,815	\$34,725	\$39,277
EFB as a % of Revenue	14.6%	14.3%	14.0%	14.0%	15.1%	16.1%	17.5%	19.3%

Notes:

- The Forecast reflects 2013 year end General Fund estimate, 2014 Budget, the 2015-2016 Early Look Forecasts and 2017 to 2020 Forecasts.
- 2015 Fund Balance reflects estimated 2013 and estimated 2014 ending fund balance.
- No increase to taxes. The Property Tax Levy growth is due to new construction, is assumed for 2014 and beyond.
- 2017 expenditures reflect the reduction of LTEs with a corresponding reduction in Labor Distribution Revenue.
- Includes Forecast adjustments as noted in the write up in this paper.

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Chart 5

General Fund Revenue versus Expenditures

